



# UBS Income Solution Fund

November 2020

## Fund description

The Fund is an actively managed, diversified portfolio of corporate credit, asset backed and other fixed income securities, cash equivalents and cash. The Fund may hold up to 25% in high yield securities (which may include unrated securities).

## Investment strategy

The Fund is actively managed, based on fundamental research that draws upon the investment insights of our fixed income teams. The approach employs both “top-down” research, including analysis of economic factors, market data and macro credit themes, and “bottom-up” research in respect of particular securities, including analysis of earnings and cash flow stability, balance sheet strength, industry and valuation.

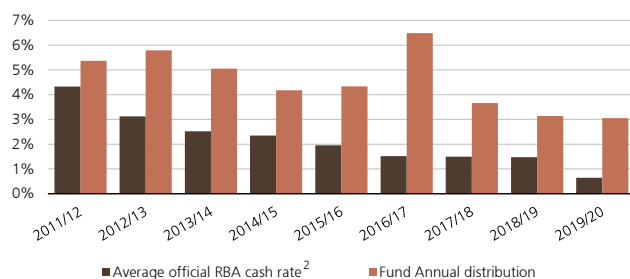
The Fund’s investment strategy is to invest in a portfolio of Australian and global corporate credit, asset backed, and other fixed income securities, cash equivalents and cash.

## Investment return objective

The Fund aims to outperform (after management costs) the Reserve Bank of Australia Official Cash Rate over rolling three year periods.

## Income history

As at financial year 30 June 2020



## Credit quality (%)

Investment Grade	80.8
High Yield	12.7
Cash and other	6.5

## Fund information

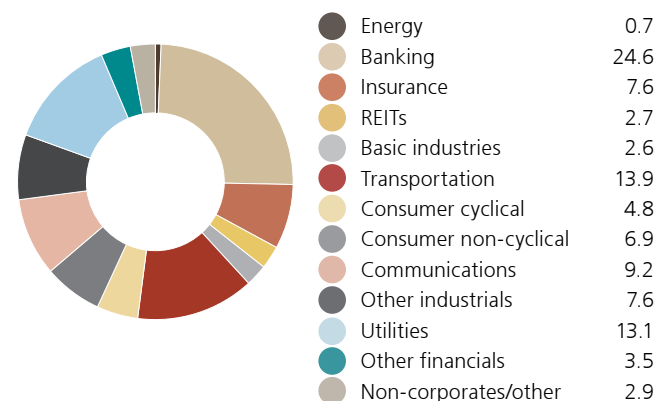
Inception date	17 April 2002
Fund size	\$301.1 m
Management fee	0.60% pa
Minimum initial investment	\$10,000 (via mFund and online application \$5,000)
Distributions	Monthly
Monthly distribution estimate CPU	0.175
Buy/sell spread <sup>3</sup> effective 17/09/20	+ 0.10% / - 0.20%
Currency management	Hedged to AUD
APIR code	UBS0003AU
mFund code	UAM05

<sup>3</sup>Due to increased volatility in the markets resulting from COVID-19, the buy/sell spreads for certain funds may have varied. For more information, please download our latest Buy/sell spreads from our [website](#).

## Portfolio statistics

Modified Duration (yrs)	2.02
Spread Duration (yrs)	4.00
Yield to Maturity <sup>1</sup> (%)	1.90
Official cash rate (%)	0.10
Average Credit Rating	BBB+

## Industry allocation (ex cash) (%)



## Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	1.14	1.97	1.77	2.79	3.73	4.90
Benchmark**	0.01	0.05	0.38	1.03	1.35	3.83
<b>Added Value</b>	<b>1.13</b>	<b>1.92</b>	<b>1.39</b>	<b>1.76</b>	<b>2.38</b>	<b>1.07</b>

\*Inception date: 17 April 2002. \*\* RBA Official Cash Rate, Prior to 1 February 2017 benchmark was Bloomberg AusBond Bank Bill Index.

Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month prices, and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. Performance can be volatile and future returns can vary from past returns. Growth returns are the returns due to change in initial capital value. Distribution returns are the returns due to the distributions paid. <sup>1</sup> Yield to Maturity (YTM) is the estimated annualised rate of return that would be received if the Fund's current securities were all held to maturity. Note that YTM does not account for fees or taxes. YTM is not a forecast, and is not a guarantee of the future return of the Fund. <sup>2</sup> Source: RBA, 2019.

### Market highlights

- Australian bonds sold off as the vaccine news dominated markets over November
- Australian credit markets enjoyed a rally with the US election result, positive vaccine news and the reopening of Victoria
- RBA cut a series of its policy rate tools in November
- Economic data continues to show evidence of a stronger than expected rebound

### Performance review

After fees and expenses, the portfolio increased by 1.14% over the month, outperforming its benchmark by 113bps.

November was a strong month for risk assets with global equities and bonds rallying in the wake of the outcome of the US presidential election and positive news on the development of effective COVID-19 vaccines. Within Fixed Income US 10-year Treasury yields declined immediately following the US election results, then moved higher on vaccine optimism.

The Australian bond market underperformed global counterparts given longer-dated Australian government bond yields stepped higher over the month. Australian 3 year government bond yields initially traded lower but this was short-lived as they retraced to close the month back near where they began at 0.11%. Meanwhile 10 year government bond yields closed the month 7bps higher at 0.90%. Australian credit markets enjoyed a rally with the US election result, positive vaccine news and the reopening of Victoria.

The fund delivered positive performance with Australian and global grade credit spreads continuing to contract over November. Positioning within Australian financials, industrials and utilities all contributed to returns over the month. The fund's small strategic allocation to US short-duration high yield securities also added to returns as high yield markets outperformed investment grade credit significantly over the month.

### Outlook

Consensus and central bank economic forecasts have been marked up as realised outcomes have surprised markets to the upside. Our outlook is more restrained than the now more optimistic consensus reflecting the rolling nature of COVID-19 resulting in a recovery that continues to be uneven across sectors and regions.

Fiscal policy has now assumed a lead policy role but monetary policy will continue to be actively supportive to growth. Central banks have explicitly provided guidance

that policy settings will remain in place for an extended period including beyond the turn in the inflation cycle. The tools of choice will be asset purchase and liquidity programs rather than a move towards more negative policy rates.

With the US presidential election behind us and the potential for a divided congress, a fiscal stimulus package may be delivered later or be smaller than markets expect. Positive developments on a vaccine are moving apace where availability and take-up is expected to broaden beyond essential workers into Q1 2021.

The pace and efficacy of the vaccine roll-out will have a material bearing on the evolution of the employment market. Near-term, savings and wage subsidies are providing a cushion to income but will fade by Q2 2021. In Australia, prospects for the labour market remain first and foremost in the minds of RBA Board members. We expect that the central bank will continue to pursue a highly accommodative monetary stance for a long time, in order to support fiscal initiatives on job creation as the economy recovers from the pandemic shock. Bond purchases will continue for the next six months and may be extended if necessary. The RBA has also been forceful with its market interventions in furtherance of the yield curve control target. Given the significant steps taken at the November meeting, further policy action is unlikely in the near term.

Within credit, investor demand remains strong in an environment where issuers continue use debt to shore up liquidity. Explicit support for high quality credit by central banks in the US and Europe will help keep a ceiling on spreads despite increasing leverage and limited earnings growth. The Australian corporate credit market has continued to perform well. We remain modestly positive toward most investment grade credit but maintain caution within high yield securities.

## Client Services

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